ANNUAL REPORT & ACCOUNTS

2017

MDDUS

UK INDEMNITY, ADVICE & SUPPORT

Contents

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Principal activity

Founded in 1902, MDDUS is a mutual defence organisation offering expert advice, assistance and indemnity cover to doctors, dentists and other healthcare professionals across the UK. All the benefits of membership are discretionary as set out in the Articles of Association.

A private company limited by guarantee, MDDUS is the trading name of the holding company of the Group. There are three wholly owned subsidiaries: MDDUS Insurance Limited, an insurance company; MDDUS Education Limited, a risk and training company; and MDDUS Property Limited, which oversees the management and performance of MDDUS's investment property portfolio.

MDDUS summary of activity - 2017

	2017	2016
Income	£115.8m	£97.4m
Total net income available for transfer to reserves	£105.5m	£41.1m
Fixed assets and cash on deposit	£770.3m	£682.9m
Provision for reported claims and non-claims	£196.5m	£214.1m

	2017	2016	%
Total active membership*	45,481	40,014	13.7
Total GP active membership	19,114	16,775	13.9
Total hospital doctor active membership	16,681	14,901	11.9
Total dental active membership	6,744	5,683	18.7

*Includes associate and other membership categories

Chairman's report

Brendan Sweeney

Chairman

11 July 2018

I am pleased to present the 2017 Annual Report and Accounts, which marks my last full year as Chairman of MDDUS. I step down in 2018 after six years of chairing the Board and 21 years as a Board member.

I always use the Annual Report as a way to look to the future as well as to recognise the achievements of the past. Put simply, 2017 has been the most significant in the 115 year history of MDDUS. Against a backdrop of significant and continued growth, we now face major uncertainties with the Department of Health and Social Care's announcement that a state-backed indemnity scheme for GPs in England will be introduced by April 2019, with the Welsh Government now following suit. Indemnifying GPs in England is a large proportion of our business and losing that will present significant challenges but also significant opportunities.

> *"Put simply, 2017 has been the most significant in the 115 year history of MDDUS."*

You will see from the Chief Executive's and Finance Director's reports that 2017 was an excellent year for MDDUS. Following the trend of the last decade, our revenue and membership numbers are at the highest in our history and we have cemented our position as the UK's second largest provider of medical indemnity to GPs. We continue to make huge strides across Scotland, England, Wales, Northern Ireland, the Isle of Man and the Channel Islands. Depending on the detail of how it is designed, the state-backed indemnity scheme has the potential to have an impact beyond GPs and England and Wales, and that's why we are working hard to ensure whatever is put in place is right for our members and for the health sector in general.

I am pleased to note that the finances of MDDUS are in rude health and our strong financial positon gives me hope for the future. This has been achieved through an outstanding performance from our finance and actuarial teams. The Board can assure you that our reserves are more than comfortably adequate to meet both our known and anticipated liabilities: that is, the claims and non-claims matters that have already been reported to us, as well as those where the incident has occurred but is not yet on our radar. For the first time, we show the detail of this in Note 13 to the financial statements (p.37). Unlike statements from other medical defence organisations, this takes account of the discount rate change. This enables us to negotiate the future direction with the Westminster Government and devolved administrations from a position of strength. It scotches the myth put about by some that there is a fundamental flaw in the discretionary indemnity business model.

It is traditional for the Chairman's report to say something about changing Board members, and 2017 was again a significant year. At the AGM in September, we said goodbye to seven members, namely Mr Ian Anderson, Professor Alastair Chambers, Dr Judith Chapman, Professor Hilary Critchley, Professor Gillian Needham, Dr Donald Pearson and our then Vice-Chairman, Dr John Garner. Their professionalism, guidance and integrity contributed a combined 142 years of service to our membership. I was also pleased to welcome Dr Joanna Bayley and Professor Iain Cameron as non-executive directors, as intimated in last year's Annual Report, and Ms Marian Glen in June 2018. The experience and skills they bring to our slimmed-down Board will be invaluable and they have already proved that with their meaningful contributions and insights. We also benefit from external professional input on our new Dental Advisory Group, ably chaired by Board members, Dr Robert Donald and Professor Nairn Wilson.

I am pleased that our efforts around public affairs have led to real progress on the bête noir of 2017, the introduction of a new personal injury discount rate of minus 0.75 per cent: an inexplicable and arguably unlawful decision with high costs day-by-day for doctors, dentists and the National Health Service as a whole. Through sustained pressure, I hope to see that wrong righted in the foreseeable future as legislation progresses north and south of the border, with amendments pressed by MDDUS being accepted by the UK Government.

I hope you are able to take some time to read through the Annual Report and Accounts for 2017 and note the significant work that has been carried out on behalf of our members.

My role as Chairman is made easier by the excellent working relationships I have with the senior team, notably, but far from exclusively, with our Chief Executive, Finance Director and Deputy Company Secretary. I am more than happy to acknowledge that I am indebted to them, and indeed to everyone who works for MDDUS, as they ensure the smooth running of the organisation and the maintenance of our excellent standard of service to members.

I have many happy memories of my time at MDDUS and step down safe in the knowledge that my successor, Dr Jonathan Berry, brings a wealth of experience and very safe hands, ready to steer MDDUS through the uncertain waters of the next few years. It has been a pleasure and a privilege to serve as Chairman of MDDUS and I wish the organisation every success in the future.

Chris Kenny

Chief Executive and Secretary

11 July 2018

Chief Executive's report

There's a great American saying that when life throws you a curveball, the best thing to do is grab a bat and swing. If that's the case, then my impression of Babe Ruth has been put to good use in 2017!

Out of leftfield, we had the astonishingly bad decision to reduce the personal injury discount rate from 2.5 per cent to minus 0.75 per cent – a legally flawed decision which will have a legacy cost of hundreds of millions of pounds. Then in October 2017 the now Secretary of State for Health and Social Care announced that a state-backed indemnity scheme will be introduced for GPs in England by April 2019, thus potentially wiping out more than a century of recognised competitive indemnity and plunging the market and, more to the point, individual GPs into at least 12 months of uncertainty. The Welsh Government is now to follow suit.

MDDUS has not sat back and allowed these changes to just impact on us and our members. We have come out swinging and invested a lot of time and energy speaking to politicians and officials at every level in Westminster and across all the devolved administrations to ensure that our members' interests are fully understood.

We have also moved to adapt and develop the services we offer in response to market demand, but we remain focussed on our core business of supporting, advising and defending our members.

The frustration, as noted by our Chairman, is that 2017 marked the most successful year in our history. The Group remains firmly in surplus with continued growth in investment income and increased reserves over the past 12 months. Our membership growth has shown no signs of letting up and we now offer our long-established, world-class indemnity and non-claims services to more people than ever before and across a wider range of professions. It is that ability to grow, to seek out new areas of membership and to backup our excellent professional services with equally strong financial and business acumen that stand us in good stead for whatever comes post state-backed indemnity being introduced.

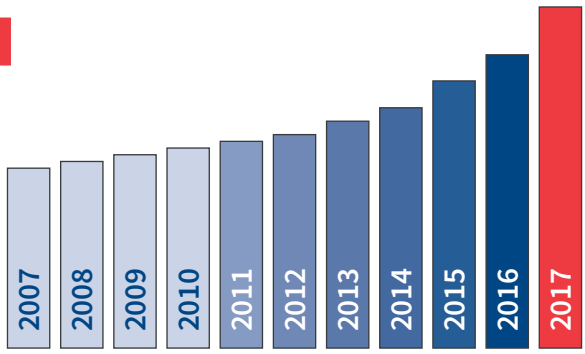
None of this has led to us to take our eye off the ball when it comes to what we are here to do – and that is to serve our members with utmost professionalism. Our ability to be responsive, quick, flexible and empathetic whilst providing excellent value is as strong now as it has ever been, helped by continuing enhancements of our digital capabilities. Our attention to detail and our professional and personalised service are what mark us out and have led to us seeing continued growth across the board.

> *"We have invested a lot of time and energy speaking to politicians and officials to ensure that our members' interests are fully understood."*

As you will see from this year's Annual Report, we continue to excel in both our claims and regulatory work, rebutting the often mistaken and sometimes malicious claims faced by our members. When members do make an honest mistake, we help put things right quickly and with minimum fuss.

With the twin threats of the discount rate and state-backed indemnity casting big shadows over MDDUS in 2017, I have been pleased that we have responded robustly in the interests of both our members and our employees. In September 2017, we welcomed Stuart Wilson as our first Head of Strategic Communications and Public Affairs. Stuart, who has a background in both public and private

Total active membership
increased by
13.7 per cent
to **45,481** in 2017



sectors, has helped us begin to transform the way we engage with all our stakeholders both externally and internally, connecting us with politicians and through social and other media. In 2017, we made good headway in having our voice heard through debates on the Civil Liability Bill in the House of Lords and the Civil Litigation (Expenses and Group Proceedings) Bill in the Scottish Parliament, during which we were called to give evidence at the Select Committee stage. It remains important that we take the voice of our members into the heart of Governments in all parts of the UK.

We continue to build effective partnerships across the medical and dental arenas. Our First Five initiative and sponsorship of the Royal College of General Practitioners' Annual Conference are particular highlights and we look forward to welcoming the RCGP to Scotland in 2018. We continue our proud sponsorship for the seventh year of the prestigious BMJ Awards, often described as the NHS Oscars. In an industry where we often hear the negativity associated with healthcare, it is superb to be able to support an evening where we can see the clear excellence in our healthcare systems and care settings across the UK.

We also continue to work with key stakeholders and are taking full advantage of our membership of the recently re-named Medical Professional Liability Association (formerly the Physician Insurers Association of America). I was honoured to become a member of the Board of the Association of Financial Mutuals (AFM) in the course of the year. Our membership of the AFM means that we are the only UK medical defence organisation that reports audited results against an external governance code.

You will know from previous Annual Reports that in recent years MDDUS has transformed the way we are structured. With the future of our core business looking more uncertain, I have no doubt that we will see further changes to our structure over the next 12 months. However, I am confident that we are more than ready for the challenges which lie ahead. We have an excellent team of people working for MDDUS and we are already prepared for the next stage of our long and illustrious history. You can be in no doubt that no matter what curveballs the future throws at us, we will be ready, bat in hand, to succeed for our members.

Finally, I want to pay tribute to our outgoing Chairman, Dr Brendan Sweeney. "Benny" has been a pillar of both professional and personal support to me since I took up the role of Chief Executive in 2015, and I have always found him to be approachable, knowledgeable and affable. I wish him well for the future and thank him for his wise counsel and effective chairmanship of the Board through challenging and exciting times. I look forward to a continued good relationship with Dr Jonathan Berry who becomes Chairman in September 2018.

Team activity reports

MDDUS has seen an unprecedented year of growth and success in 2017.

Our core teams covering medical, dental, legal, development and risk education services enjoyed a successful 12 months, as you will see on the next few pages. We have cemented our position as the UK's fastest growing medical and dental indemnifier and have seen great success across all of our teams.

Putting our members at the heart of what we do is our top priority and reflects our heritage of serving doctors, dentists and other healthcare professionals since 1902.

Medical team

Providing expert medico-legal advice when needed is at the core of MDDUS. Our team of advisers supports members with expert advice and assistance on a wide range of medico-legal issues. These cover cases of all sorts of complexity and severity, but every single one is treated by our medical team in a professional, informed, timely and personable manner.

Our team now provides advice and support to 36,706 medical members – an increase of 13.4 per cent on last year.

In 2017:

- We answered 11,234 telephone calls and replied to 2,361 emails/letters – increases of 10.8 per cent and 3.6 per cent, respectively.
- 5,808 new case files were opened relating to complaints, claims, disciplinary and regulatory matters, coroner's inquests and fatal accident inquiries – an increase of 4.4 per cent.
- Our specialist employment law advisers answered 1,437 telephone calls and opened 334 new case files – increases of 11.6 per cent and 30 per cent, respectively.
- We attended 46 educational events, providing medico-legal updates to the profession, including at our own Practice Managers' Conference.

As you will see reflected elsewhere in the Annual Report, we are waiting to see the impact of the introduction of the state-backed indemnity scheme on GPs in England and Wales, but we expect demand for our medico-legal advice to continue the increasing trend of recent years. State-backed indemnity will not cover non-claims matters such as legal support at General Medical Council (GMC) fitness to practise hearings or coroner's inquests. Indeed, MDDUS has called on the GMC, as part of wider reform, to make clear that doctors also need legal cover for such non-claims matters in order to ensure registrants are properly protected.

Our Joint Heads of Medical Division, Dr Anthea Martin (Glasgow) and Dr John Holden (London), continue to engage widely with relevant stakeholders in the interests of our members, including regular interaction and discussion with the GMC and the Medical Practitioners Tribunal Service, the various royal colleges, BMA, ombudsmen and many others. As part of these interactions, we have submitted responses to many consultations which have the potential to impact on our members and the wider profession.

> *"Our team now provides advice and support to 36,706 medical members – an increase of 13.4 per cent on last year."*

The medical team are all GMC registrants and are subject to the same appraisal, CPD and revalidation disciplines as our members. They also contribute directly to our risk education and publications work to share best practice and learning with our members.

We conclude by noting the growing concern over the impact of actions for gross negligence manslaughter on the profession. Such cases are thankfully rare, but the possibility of an allegation in itself can have a harmful impact on practice and the welfare of doctors. We have taken important steps in this area, including contributing to the Sir Norman Williams review into gross negligence manslaughter in healthcare and the Dame Clare Marx review of gross negligence manslaughter and culpable homicide.

Dental team

We are proud to have the UK's leading advisers working on behalf of our dental members. MDDUS has dento-legal advisers based in both Glasgow and London, offering a variety of services to members on increasingly complex and varied issues across a range of matters. These include telephone and written advice, assistance with complaints management, General Dental Council (GDC) fitness to practise investigations, claims, disciplinary investigations and dental practice board enquiries across the UK. They also contribute to several prestigious undergraduate and postgraduate education programmes and publications.

At the start of 2018, we bolstered our dental team further, with the addition of two senior, experienced and internationally respected advisers. Stephen Henderson and Susan Willatt bring a combined 36 years of experience as dento-legal advisers.

Mr Henderson qualified in London in 1984 and obtained a master's degree in medical law (LLM) in Cardiff in 2005. After working in hospital practice, he went into practice in Oxford, where he still works as a visiting specialist in oral surgery. Prior to joining MDDUS, he worked for another indemnifier for 17 years. He was recently awarded an honorary fellowship by the Faculty of General Dental Practice.

Ms Willatt qualified in London in 1983 (BDS) and gained an MBA from Warwick University in 2000 and a master's degree in medical law (LLM) in Cardiff in 2004. She worked in general practice (NHS and private) before taking up a clinical and management post in a large dental corporate. In 2000, Ms Willatt took up a part-time post in the community dental service and worked for another indemnifier. She soon became company secretary and then head of dental services.

> *"Dental membership in England, Wales and Northern Ireland (including GDPs and hospital dentists) increased by 30 per cent in 2017."*

Overall, dental membership in England, Wales and Northern Ireland (including GDPs and hospital dentists) increased by 30 per cent in 2017. MDDUS now has a fifth of the dental market share outside Scotland, while membership in Scotland increased by 3.8 per cent to maintain two-thirds of the market share.

We saw an increase of 12.8 per cent in telephone advice requests, despite a decrease of 7.2 per cent in written requests. This increase is reflective of our incredibly successful growth in dental members, recognising the high-quality product that MDDUS provides, and the increasing use of phone calls to contact us.

As well as advice and support to members, our dental team engages with the GDC in various stakeholder and workshop events, providing valuable input and learning. Bespoke CPD is also provided to individual dental practices.

Since October 2017, our new Dental Advisory Group has met on two occasions to bring together external representatives of the profession from academic, general and specialist dental practice. Discussions have assisted MDDUS to understand members' needs, both undergraduate and postgraduate, and so assist directly with product and service enhancements.

Legal team

During 2017, the legal team continued its success representing our members across their varied disciplines in often complex and serious cases. We repudiated a significant proportion of claims and greatly reduced the amount paid in damages compared to sums initially claimed. However, with continued growth in members came a growth in caseload around new clinical negligence claims, particularly in relation to those practising in England.

We continue to see an increasing trend towards litigation and associated rising costs. That is why we have been engaging politicians and officials on the Civil Liability Bill in England and the Civil Litigation (Expenses and Group Proceedings) Bill in Scotland to challenge these costs at the heart of Government.

> *"The vast majority of regulatory cases (97 per cent) dealt with by the legal team in 2017 were concluded without referral to the Medical Practitioners Tribunal Service or a Professional Committee of the GDC."*

We were involved in 290 regulatory cases involving our members at the GMC or GDC in 2017. The vast majority (97 per cent) were concluded without referral to a full hearing at the Medical Practitioners Tribunal Service or a Professional Committee of the GDC.

We now have 29 'in-house' lawyers directly assisting members across the UK and its various jurisdictions on a full range of medico- and dento-legal issues.

The performance of the team is closely monitored by a series of key performance indicators and audits. We work hard to ensure a consistent, high quality approach is adopted in both claims and regulatory handling.

Development

Thanks to the careful stewardship of our Director of Development, David Sturgeon, the last 12 months saw further growth in membership, reflecting how our competitively priced products are valued and welcomed across the UK.

In 2017, total active membership rose to 45,481, representing an increase of 13.7 per cent on 2016.

Hospital doctor membership rose by 11.9 per cent while dental membership rose even more at 18.7 per cent. Overall GP membership rose by 13.9 per cent with those practising outside Scotland making up 73 per cent of the total.

In 2017, Stephen Kelly and his membership services team dealt with more than 52,000 telephone calls with an average response time of just nine seconds. The team also received just over 28,000 emails, with 81 per cent receiving a response within two working days and 94 per cent within five working days.

Our Head of Marketing and External Relations, Gaelle Ainslie, and her team continued their excellent work at a number of high-profile events across the UK, giving us the opportunity to connect with existing and potential members. Meanwhile, our social media feeds on Twitter and Facebook continue to grow and promote the work and key messages and values of MDDUS, taking our brand to new audiences every day. Likewise, we have been very active in working with both the industry and mainstream media in promoting MDDUS and raising the profile of our brand, our people and championing our members.

Our refreshed website has proven very popular and is updated regularly with news, views, case studies and learning resources for our members to access at any time. We are developing the functionality of the website all the time and welcome input from members on what they want available.

Risk education

Our risk education service is one of the key ways in which we provide a superior service to our members. Its sole aim is to promote professional practice and patient safety through careful analysis of key trends in the medico- and dento-legal world. It uses MDDUS case experience and emerging issues on the UK stage, such as reflective learning and the General Data Protection Regulation (GDPR), to inform the development of its programme. Through online learning resources, risk management tools and training courses for members, the risk education service has built a solid reputation as a provider of excellence.

In the past year, we released a fifth episode of our flagship drama series *Bleak Practice* for GP practices, focussing on the risks associated with GP locums and their interface with practice systems – e.g. referral and results handling. The episode also addressed the use of chaperones for intimate examinations, ensuring that practices are compliant with guidance from the GMC. This method of education has proven very popular indeed, with one practice manager commenting: "*Bleak Practice* is a great resource... This episode is, as is every episode, a very entertaining and extremely useful training tool for everyone in the practice."

We ran a series of GP, GDP, practice manager and hospital doctor risk training days – both at MDDUS offices and across the UK in partnership with the Royal College of General Practitioners and other organisations. These have focussed on providing doctors with evidence-based knowledge and practical tools to assess and manage known medico-legal risk. All participants said they would recommend our face-to-face courses to colleagues, and the majority of delegates rate the impact of our training on patient care as "significant".

Our range of online courses, which provide verifiable CPD for doctors and dentists, has been expanded to include good practice in record keeping for GDPs. Additionally, a second online course for hospital doctors – 'Good Practice in Record Keeping for Hospital Doctors' – was accredited by the Royal College of Physicians.

The range of interactive webinars available to members was also expanded to include social media risks and locum risks, amongst others.

One of the highlights of the year was our highly successful two-day conference for 180 practice managers from across the UK in November 2017. All delegates stated that the conference subject matter was important to them in their role, as was the practical nature of the workshops. One practice manager commented: "The conference was absolutely fantastic. I was able to network and took away a lot of new information that I can apply in my practices. We don't get many opportunities as practice managers to meet up and your conference is always by far the best out of the other organisations which provide a similar event."

> *"One of the highlights of the year was our highly successful two-day conference for 180 practice managers from across the UK."*

The conference was not our only foray outside our offices or offline. We provided day courses to a range of partner and member organisations, including out-of-hours providers and practice manager groups. Popular topics included complaints, confidentiality and employment law. We also led popular symposiums at both the RCGP annual conference in Liverpool and at the Best Practice Conference in Birmingham.

Publications play a major part in the way we communicate with our members. In 2017, we launched the redesigned and renamed *Summons* magazine as *Insight*, which has proven very popular with members. We also expanded the distribution and content reach of *SoundBite* magazine to all our dental members.

Our focus for the next 12 months is to assist medical and dental practices in translating the requirements of GDPR to their own organisations. This has involved the planning and production of a series of guidance sheets, interactive webinars and full-day training events. With this and other work, we are preparing the membership of MDDUS for the year ahead.

Finance Director's report

Colin J Slevin
Finance Director
11 July 2018

The key priority at MDDUS is to remain financially sound to ensure that members can call upon the organisation with confidence to provide appropriate assistance as required. It is imperative that we are able to be there for our members. The Board is confident that our continuing financial health provides that reassurance, despite the challenges MDDUS currently faces in an uncertain economic and political environment.

Financial performance

I am pleased to report that, building on a strong performance in previous years, the financial results for 2017 show a further consolidation of the healthy financial position at MDDUS. The consolidated statement of income and retained earnings details a surplus for the year on ordinary activities after taxation of £105.5m (2016: £41.1m). This represents another significant amount of income available to transfer to reserves this year. The contributing factors to this increased surplus were a further rise in subscription income as a result of the growing number of members joining MDDUS, as well as the increase in the value of our investment assets.

Members' subscriptions and other income rose by 18.9 per cent in the year to £115.8m (2016: £97.4m). The subscription income element partly contributed to this increase on the previous year, with the balance being an increase in the level of rental income from our investment properties in London. The increased subscription income was primarily a result of the recruitment of new members rather than as a result of the increase in subscriptions rates.

> *"MDDUS continues to believe that discretionary occurrence-based cover offers the most effective and reliable basis of protection for the medical and dental professions."*

On the costs side, we noted a significant decrease in the charge for claims costs from £73.6m in the prior year to £16.1m for 2017. As the figure not only relates to payments made in the year but also necessary adjustments in the values of open claims at the year end, the decrease was partly driven by our cost trends projections being revised in the light of 2017 data.

Financial position

At 31 December 2017, the balance sheet indicates that the total net assets of MDDUS increased by 23.9 per cent in the year to £547.4m (2016: £441.8m).

Investments

The nature of indemnity is that it can be many years between the date that a member pays their subscription and when that money is used to pay for a claim. During this period, MDDUS has the opportunity to invest that money in order to manage the level of subscription rates, as well as to ensure that the money is available to make payments when required. Our current investment strategy is to select a cautious investment portfolio with a spread of asset classes in the expectation that, over the long term (which is our timescale for investment), the portfolio will ride out the vagaries of the market.

In recent years, we have provided additional diversification to the investment portfolio by purchasing office properties in London. The aim of the portfolio is to ensure that there are sufficient funds for MDDUS to meet its liabilities when they fall due, but also to support the subscription rate setting process. This means that members can benefit from lower rates than might otherwise have had to be set. During 2017, our asset portfolio generated a positive result of £26.8m (2016: £42.7m). The main driver taking away form the strong performance of the listed portfolio was a decrease in the value of property by £10.9m, which is largely due to short-term uncertainties on the London property market caused by Brexit.

Provision for liabilities and charges

MDDUS continues to believe that discretionary occurrence-based cover offers the most effective and reliable basis of protection for the medical and dental professions. This ensures that our members have a central role in these matters, as well as providing cover to protect them for many years.

Members will be aware that in addition to the claims and non-claims matters that have been reported to MDDUS at 31 December 2017 and incorporated in the financial statements, there will be claims and non-claims reported at a later date for incidents arising from periods of membership ending before 31 December 2017 – the so-called incurred but not reported (IBNR) liabilities. Although MDDUS has not yet exercised its discretion over these matters by the year end (as they have by their nature not been reported), our actuaries have estimated the value of these IBNR claims and non-claims. To further enhance the transparency over our good financial health, we have decided for the first time to disclose our IBNR in note 13 to the financial statements. Members will be reassured that our net assets of £547.4m (2016: £441.8m) are more than sufficient to meet the IBNR of £370.1m (2016: £271.8m).

Summary

The Board is confident that the financial results for 2017 provide continuing reassurance to members that the sound financial position achieved by MDDUS in recent years has been further consolidated.

Directors' report

Corporate governance

Companies listed on the main market of the London Stock Exchange are required to describe in their annual report and accounts how they comply with the 'good practice' provisions and principles in The UK Corporate Governance Code, or to explain any material departures.

MDDUS is not a listed company, however, the Board is committed to a high standard of corporate governance that reflects its role as a 'non-directive' mutual insurer. As a recent member of the Association of Financial Mutuals (AFM), the Board aims to comply with the provisions and principles of AFMs' UK Corporate Governance Code: an annotated version for mutual insurers (September 2016) ('the Code'). In accordance with Provision C.1.1. of the Code, the Board confirms that this Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for members to assess our position and performance, business model and strategy. The small number of exceptions to our compliance with the Code are set out in this report and the Board does not consider these to be a material departure.

Our corporate governance arrangements have been formally reviewed and updated each year since 2015 and we have provided more detailed annual reporting against the Code in the financial years ending 31 December 2016 and 2017.

In addition, the wider membership is encouraged to support the 'good governance' of MDDUS, for example, by standing for appointment to the Board and/or attending the Annual General Meeting (AGM) to receive the Annual Report, to appoint Board members and the auditor, and to consider other resolutions. The Notice of the AGM and related papers are published for the benefit of the membership at the earliest opportunity, whilst ensuring compliance with the non-executive director appointment process. There is also an email address for members and other stakeholders to raise questions about the governance of MDDUS: secretary@mddus.com

The Board

The membership of the Board in 2017 and 2018 is set out later in this report (p. 40). Current biographies are available on the website. Prior to the AGM on 8 September 2017, the Board consisted of 21 directors, comprising 19 non-executive directors and two executive directors: the Chief Executive and the Finance Director. There were three out of a maximum of four non-clinical 'external' non-executive directors, bringing experience from business development, financial services and the actuarial and legal professions. As part of an agreed downsizing of the Board, the maximum number of non-executive directors after the AGM reduced to 12. Ten of the 12 non-executive directors at the year end were 'independent' as defined by the Code, having served nine years or less since their first appointment to the Board. All non-executive directors who are members of MDDUS must pay the appropriate membership subscription. Some may also receive expert witness fees at the standard rate, but no such fees were paid in 2017 (2016: £0). The Board agreed on 27 April 2018 that directors may not act as expert witnesses in claims involving members of MDDUS.

Any member of MDDUS can stand for appointment to the Board. Since the AGM in 2005, non-executive directors can generally serve not more than three terms of up to four years in office, subject to the succession planning needs of the Board. During 2017, the non-executive director appointment process used both direct advertising to the membership and an executive search firm, Saxton Bampfylde. Included in the search criteria was a commitment to increase diversity on the Board to reflect the current and potential membership of MDDUS. The Governance and Nominations Committee considered applications from over 50 candidates, which were subsequently long-listed and then short-listed. The remaining candidates met the Chairman to discuss the role, before being interviewed by a panel of the Committee. Two non-executive directors were appointed by the Board on 28 April 2017, bringing experience from the fields of obstetrics and academia and general practice, respectively. Their appointment was confirmed by the members at the AGM. As part of the agreed downsizing of the Board, seven non-executive directors retired from the Board at the AGM.

The Governance and Nominations Committee agreed on 16 March 2018 to instruct executive search firm, Odgers Berndtson, to identify a non-executive director who is an accountant and/or has 'recent and relevant financial experience' and/or is an 'Approved Person'. Included in the search criteria again was a commitment to increase diversity on the Board. A panel of the Board considered applications from over 25 candidates, which were subsequently short-listed and interviewed by the panel. One non-executive director was appointed by the Board on 22 June 2018, bringing experience from the fields of law, corporate governance and financial regulation. The Board recommends their appointment by the members at the AGM on 7 August 2018.

Non-executive directors appointed since 2016 are required to sign contracts for service, which include the time commitment they are expected to commit to their role. These require new directors to participate in an informal induction programme, which includes meetings with the Chairman, senior staff and a 'mentor' from the Board (generally the Senior Independent Director), and we also provide recent Board and committee papers (including the strategic and business plans) and relevant policies and guidance relating to their role and 'good governance'. In addition, we aim to meet the training needs of directors as they are identified, including externally-facilitated sessions in 2017 about leadership, the role of investment committees and cyber risk management. The contracts for service (and the committees' terms of reference) also authorise non-executive directors to instruct independent professional advice where necessary to discharge their responsibilities to MDDUS. Directors' and officers' liability insurance is renewed annually.

In addition to agreeing pre-AGM appointments of non-executive directors, the Board also appoints directors to the positions of Chairman, Vice-Chairman and Senior Independent Director. The roles of Chairman and Chief Executive are separate and their profiles, which were updated in 2016 and were reviewed by the Governance and Nominations Committee on 16 March 2018, distinguish clearly between leading the Board and executive responsibility for the running of the business. The Chairman was appointed as a non-executive director in 1997 and as a non-'independent' Chairman in 2012. The Board agreed in April 2017, reconfirming a decision taken in 2016, to extend the Chairman's term of office by one year to 2018 to provide stability following the relatively recent appointment of the Chief Executive, the downsizing of the Board at the AGM and the current uncertain external operating environment. He has

no external commitments that might detract from his ability to discharge the duties of Chairman. A 'Chairman-elect' / Vice-Chairman (and a 'Vice-Chairman-elect') was appointed by the Board on 15 December 2017 to shadow the Chairman until the AGM in 2018. The Board acknowledges that he will not be 'independent' on appointment as Chairman but considers this departure also to be justified by the uncertain external operating environment, in particular the state-backed indemnity scheme for GPs in England and Wales. The 'Vice-Chairman-elect' will be independent on appointment at the AGM in 2018. The Chairman was not engaged in the process to appoint his successor. In addition, the Board agreed on 27 April 2018 to appoint a successor to the Senior Independent Director who retired at the AGM. The role profile was agreed in 2016 and was reviewed by the Governance and Nominations Committee on 16 March 2018.

There were seven meetings of the Board in 2017 with an average attendance rate of 91 per cent. The attendance rates of individual directors are detailed in Table 1.

The Board has a forward business programme, which helps to shape the agenda for each meeting, in discussion with the Chairman, the Chief Executive and the Deputy Company Secretary, who supports the Board and the wider corporate governance arrangements of MDDUS. A typical meeting will consider emerging strategic and policy matters, as well as receiving regular reports about progress against the business plan, the 'balanced scorecard' of key performance indicators, a Chief Executive's report, management accounts and minutes of meetings of its committees and subsidiary boards.

Following work in 2015-16, the Board has terms of reference and an updated schedule of matters reserved to the Board, which includes the approval of the strategy, substantive changes to the services provided to members and the Annual Report and Accounts. These were reviewed by the Governance and Nominations Committee on 16 March 2018.

Table 1 Directors who served in 2017

Director	Board meetings attended*
Anderson, I W R	4 (4)
Angiolini, E	7 (7)
Bayley, J	6 (6)
Berry, J P	7 (7)
Black, J	5 (7)
Cameron, I	6 (6)
Chambers, W A	2 (4)
Chapman, J M	4 (4)
Critchley, H O D	4 (4)
Donald, R M	7 (7)
Garner, J A M	4 (4)
Kenny, C	7 (7)
Leitch, J	4 (7)
McDonald, P	6 (7)
McPhail, M	7 (7)
Needham, G	4 (4)
Pearson, D	4 (4)
Semple, L	6 (7)
Slevin, C J	6 (7)
Sweeney, B**	7 (7)
Wilson, N	6 (7)

** The number of meetings the director was eligible to attend is in brackets. See page 40 for a current list of directors.*
***Chairman*

Board committees and groups

There are four formal committees supporting the work of the Board: Audit and Risk, Investment, Governance and Nominations, and Remuneration. In addition, directors are appointed to the Actuarial Reserving Group and the Membership Renewal Review Group. The membership of these committees and groups is reviewed annually and the former is set out later in this report (p. 40). All non-executive directors serve on at least one committee or group, but members of the Investment Committee cannot serve also on the Audit and Risk Committee. The executive directors attend or are members of each committee or group. The remit and recently agreed or reviewed terms of reference for each committee and group are available on our website.

A Chairman's report about the work of the **Audit and Risk Committee** is provided later in this report (pp 17-18). A new Chairman and Vice-Chairman were appointed to the Committee on 1 January 2017. There were three meetings of the Committee in 2017 with an average attendance rate of 78 per cent. The attendance rates of individual directors are detailed in Table 2.

Table 2 Director attendance at Audit and Risk Committee meetings in 2017

Director	Meetings attended*
Black, J	1 (3)
Cameron, I	0 (2)
Chambers, W A	2 (2)
Chapman, J M	2 (2)
Critchley, H O D	1 (2)
McDonald, P	3 (3)
McPhail, M**	3 (3)
Semple, L	3 (3)
Wilson, N	3 (3)

** The number of meetings the director was eligible to attend is in brackets. See page 40 for a current list of directors.*
***Chairman*

The **Governance and Nominations Committee** is charged with, amongst other things, leading an open and transparent process to identify and nominate candidates to fill vacancies on the Board. When nominating suitable candidates, the Committee takes into account the structure, size and composition of the Board. There is a recently reviewed role profile for non-executive directors (and each of the Board's office holders) and an induction programme for new directors. The Committee is also responsible for determining, and reviewing the outcomes of, the Board-agreed processes to evaluate in consecutive years the performance of the Board and its committees (including, in 2016, an external facilitator and meetings with senior staff and the external auditor) and individual non-executive directors (2017). Action plans from these meetings were agreed by the Board and their implementation is being monitored by the Committee. There were two

meetings of the Committee in 2017 with an average attendance rate of 89 per cent. The attendance rates of individual directors are detailed in Table 3.

Table 3 Director attendance at Governance and Nominations Committee meetings in 2017

Director	Meetings attended*
Angiolini, E	1 (2)
Berry, J P	2 (2)
Garner, J A M	1 (1)
Leitch, J	2 (2)
Sweeney, B**	2 (2)

** The number of meetings the director was eligible to attend is in brackets. See page 40 for a current list of directors.*
***Chairman*

The Investment Committee is charged with, amongst other things, recommending to the Board the MDDUS Investment and Asset Allocation Strategy and overseeing the performance of the investment managers. The reporting framework for the investment managers is being reviewed during 2018. A new Chairman and Vice-Chairman were appointed to the Committee after the AGM. There were four meetings of the Committee in 2017 with an average attendance rate of 97 per cent. The attendance rates of individual directors are detailed in Table 4.

Table 4 Director attendance at Investment Committee meetings in 2017

Director	Meetings attended*
Anderson , I W R	3 (3)
Bayley, J	2 (2)
Berry, J P**	4 (4)
Donald, R M	4 (4)
Garner, J A M**	3 (3)
Leitch, J	3 (4)
Needham, G	3 (3)
Pearson, D	3 (3)
Slevin, C J	4 (4)
Sweeney, B	4 (4)

** The number of meetings the director was eligible to attend is in brackets. See page 40 for a current list of directors.*
***Chairman*

The Remuneration Committee is charged with, amongst other things, determining and keeping under review the remuneration and terms and conditions of service of non-executive directors and some senior executive staff, and being consulted about our pay and reward practices. The Board Chairman is a non-'independent' member of the Committee. There was one meeting of the Committee in 2017 with an average attendance rate of 100 per cent. The attendance rates of individual directors are detailed in Table 5. A statement about our remuneration (pay and reward) practices is provided later in this report (pp 16-17).

Table 5 Director attendance at Remuneration Committee meetings in 2017

Director	Meetings attended*
Angiolini, E**	1 (1)
Black, J	1 (1)
Garner, J A M	1 (1)
Sweeney, B	1 (1)

** The number of meetings the director was eligible to attend is in brackets. See page 40 for a current list of directors.*
***Chairman*

The Actuarial Reserving Group is charged with, amongst other things, reviewing and challenging the actuarial reserving processes, methodologies and assumptions used in setting the year-end actuarial reserves and providing assurance that these have been properly reviewed internally and by external peer-reviewers. The Chief Executive is the Chairman of the Group, which comprises the Chairmen and Vice-Chairmen of the Board's committees. There were two meetings of the Group in 2017.

The Membership Renewal Review Group is charged with, amongst other things, approving, refining and applying conditions of membership criteria to a small number of identified members, including potentially the removal of membership. The Chief Executive is the Chairman of the Group. There were four meetings of the Group in 2017.

Subsidiary boards

In addition to the Board and its committees, there are boards for each of the Group's three subsidiary companies.

The Board of MDDUS Insurance Limited manages MDDUS's captive insurance company in Guernsey. It is constituted according to the relevant provisions of Guernsey legislation and includes directors resident on the island and nominees by the main MDDUS Board. There were two meetings of the Board in 2017.

The Board of MDDUS Property Limited oversees the performance and management of MDDUS's investment property portfolio. A new independent Chairman and a Vice-Chairman were appointed to the board at the AGM. There were two meetings of the Board in 2017.

The Board of MDDUS Education Limited oversees the financial impact of a small number of revenue raising activities in the educational area. The Board did not meet in 2017.

The reports of these boards are incorporated in this Annual Report.

Risk and controls

The Board is responsible for the effectiveness of the processes and systems employed in the robust assessment and management of risk and the exercise of internal controls. Management is responsible for the identification, assessment, management and monitoring of risk and for developing, operating and monitoring the system of internal control.

The main risks facing MDDUS are as follows:

Strategic risk

The Department of Health and Social Care (DHSC) and the Welsh Government plan to implement a state-backed indemnity scheme for general practitioners, respectively, in England and Wales. As such, MDDUS is in the process of extensive strategic planning for possible changes to our business model and products.

Underwriting risk

This is the risk of loss due to inadequate pricing or reserving assumptions or poor screening decisions at entry stage. We mitigate this risk by having suitable underwriting and reserving processes and procedures to ensure that statistical and accounting data are accurate and reliable. MDDUS obtains detailed internal actuarial advice, subject to external peer review, with all costs identified

and incorporated into its pricing model. We treat all actual and potential members and prospective members on a consistent basis, balancing the interests of the membership as a whole with the interests of individual members, so as to ensure best value for the mutual fund.

Operational risk

This is the risk of loss arising from inadequate or failed internal processes, personnel or systems, or from external events. To mitigate this risk, we have implemented an effective process to identify, document and monitor exposure to operational risk and to track relevant operational risk data.

A risk register is maintained that includes a description of key strategic risks, an assessment of their likelihood and impact on MDDUS (both gross and net scores) and the management actions to control the risks. The format and content of the register was fully updated in 2017 and it is reviewed biannually in detail by the Audit and Risk Committee and is reported to the full Board.

The Audit and Risk Committee is also charged with reviewing our internal financial controls and reporting to the Board. The system of control stems from the clear definition of powers reserved to the Board, its committees and the senior executive. There is regular reporting of financial information at all levels within the organisational structure. This includes the production of actual departmental monthly spend against budgeted spend and monthly management accounts. The Board also receives reports on all core claims and non-claims activity.

The Group's investment managers operate on a discretionary basis, but acting in accordance with clear investment guidelines. Compliance with these guidelines is monitored regularly by a firm of external investment risk consultants. This work and the tracking of performance against relevant benchmarks allows the Investment Committee to assess the risks involved in the separate classes of investment.

To support financial accountability, a fully integrated system of departmental budgeting is in place. This is aimed at ensuring compliance with agreed budgets and with strategic and departmental plans.

Market risk

This is the risk of loss or adverse change in the financial situation resulting, directly or indirectly, from fluctuations in the level and in the volatility of market prices of any or all of our assets, liabilities and financial instruments. To mitigate this risk, our investment policy takes into account our business, solvency position, long-term risk versus performance, and underlying exposure. We have clear investment guidelines in place and the Investment Committee receives regular updates from investment managers and a separate independent assessment of the performance of those managers.

Public policy risk

This is the risk of the UK Government and the devolved administrations intervening without a proper assessment of the financial health of, and impact on, the sector or the wider impact on our members. We mitigate this risk in our reserving policies and by ensuring open and frank discussions with the Government and administrations to improve their understanding.

Remuneration statement

A job evaluation review in 2017 by MDDUS and PwC provided a robust, consistent and gender-neutral grading and pay structure, which also enables us to demonstrate that we provide equal pay for equal work. In addition to job evaluations, new and existing roles may be benchmarked to ensure pay and reward practices are competitive against the marketplace.

We have opted not to provide a formal individual performance-related pay process, however, we require staff to meet their line managers to agree and report against annual performance development reviews, which encourages more regular reflection on performance against individual staff objectives and the alignment of these to performance against our business plan.

Our practice for reviewing individual staff pay and/or contribution is via the annual meeting of the Salary Group (see below), which determines an annual cost-of-living award. Additionally, line managers are asked to submit business cases for staff that demonstrate exceptional performance, significant changes in role profiles or structured progression paths. Staff may be rewarded a one-off bonus payment for an individual contribution, in addition to receiving a general pay uplift. Although variable pay awards such as these bonuses are possible, they are very rare.

In addition to basic pay, staff are eligible to receive a number of core benefits, including a defined contribution pension scheme, life assurance, private medical assurance, interest-free travel loans and childcare vouchers. In the light of feedback from a staff survey in 2016, we have been working with a third-party provider to explore additional benefits to offer to staff, including buying and selling annual leave, and an option to purchase critical illness cover, dental insurance and discount gym membership. These new benefits will be available in the near future, subject to demand and cost.

In addition to receiving an annual report about pay and reward practices for staff, the Remuneration Committee determines and keeps under review the remuneration and terms and conditions of service of non-executive directors and the members of the Salary Group – the Chief Executive, the Finance Director, the HR Director and, since 2018, the Director of Advisory and Legal Services and the Director of Development. It is a challenge to find a range of benchmarks similar to the nature, size and complexity of our business, however, an annual review is informed by external expert companies, in particular PwC in 2017 and also, in 2018, the AFM. The Chief Executive (and, in his case, the Chairman) also provide a report about performance against objectives for members of the Salary Group. The two executive directors do not participate in the Committee's discussions about their own pay. A comprehensive review of non-executive director pay is planned for 2019, which will seek to align pay rewards to reflect their workload following the downsizing of the Board at the AGM in 2017 and developments as the current uncertain external operating environment begins to resolve.

The Committee welcomed on 27 April 2018 a voluntary action plan, suitable to a business of the scale of MDDUS, to respond to potential issues concerning gender pay (statutory gender pay gap regulations apply only to larger businesses). An update will be presented in due course to the Committee.

The Board receives each year a high-level report about the work of the Committee.

Modern Slavery Act

The Board agreed its first statement setting out its response to the Modern Slavery Act in the financial year ending 31 December 2016. Since then, the Group has developed and implemented an action plan to ensure that it meets both the letter and the spirit of the legislation. The Board statement for the financial year ending 31 December 2017 is available on our website.

Viability statement 2017

The directors' view of the viability of MDDUS is supported by its strong positive cashflow position, its matching of notified liabilities with cash and bonds and a strong internal risk management function. A comparison of incurred but not reported (IBNR) liabilities with the available net assets has also been carried out with no issues noted.

Against that background, and in accordance with Provision C.2.2. of the Code, the directors confirm that they have a reasonable expectation that MDDUS will continue to operate and meet its liabilities, as they fall due, over the three years to 31 December 2020. The directors' assessment has been made with references to MDDUS's current financial position and future prospects, its strategy, the market outlook and its principal risks and management thereof.

A period of three years was chosen as this is the normal length of our strategic planning periods. It covers the current strategic planning period and ensures consideration of how MDDUS and its operating environment will develop in the medium term, rather than merely how it is placed to respond to more immediate challenges.

In making their assessment, the directors have considered information provided to them, including current balance sheets and investment portfolios, financial projections, the underwriting strategy and risk registers. The financial projections are prepared allowing for the impact of the key risks faced by MDDUS, including changes in subscription income, falls in assets values, increases in claims inflation and regulatory changes. The directors have given due consideration to the Department of Health and Social Care's announcement to introduce a state-backed indemnity scheme for GPs in England from April 2019 and a similar decision taken by the Welsh Government. In addition, the possibility of the indemnity industry becoming subject to regulation has been considered within the financial models.

Going concern

The financial statements are prepared on the going concern basis. In adopting the going concern basis, the directors consider that the Group has sufficient assets to continue in operation for a period of at least 12 months from the approval of the financial statements.

Statement of directors' responsibilities

The directors are responsible for preparing the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. The directors have elected to prepare the financial statements in accordance with United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) and applicable law. The financial statements are required by law to give a true and fair view of the state of affairs of the Group and MDDUS and of the surplus or deficit of the Group for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently
- make judgements and estimates that are reasonable and prudent
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Group will continue in business.

The directors are responsible for keeping proper accounting records that are sufficient to show and explain MDDUS's transactions and disclose with reasonable accuracy at any time the financial position of the Group and to enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the preparation of the other information contained in the Annual Report, including the Strategic report and the Directors' report. The Annual Report is published on the MDDUS website in accordance with legislation in the UK governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the MDDUS website is the responsibility of the directors. The directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

Statement as to disclosure of information to auditor

So far as the directors are aware, there is no relevant audit information of which MDDUS's auditor is unaware, and each director has taken all the steps that ought to have been taken as a director in order to make themselves aware of any relevant audit information and to establish that the Group's auditor is aware of that information.

Auditor

The retiring auditor, BDO LLP, offer themselves for re-appointment at the forthcoming AGM.

On behalf of the Board
Chris Kenny
Chief Executive and Secretary
11 July 2018

Audit and Risk Committee report

The Audit and Risk Committee assists the Board in discharging its responsibilities for financial reporting, internal control, risk management and its relationship with the external auditor.

The Board considers the Committee to have a recent and relevant range of financial, risk, control and commercial expertise to provide effective challenge to the executive. Ms Margaret McPhail and Dr Linsey Semple were appointed as, respectively, Chairman and Vice-Chairman of the Committee for the financial year ending 31 December 2017, bringing with them a robust blend of commercial, clinical and academic experience. Professor Iain

Cameron joined the Committee as a new non-executive director in 2017, bringing with him experience as a clinical academic and Dean.

The Committee's major responsibilities during the year were:

- reviewing the final financial statements for the financial year ending 31 December 2017, with particular reference to the consolidated statements of income and retained earnings, the consolidated balance sheet, the requirements of the Code and the external auditor's report, and recommending their approval to the Board
- recommending the re-appointment of BDO LLP as the external auditor, agreeing the scope of its work and its remuneration
- reviewing the effectiveness and independence of the external auditor
- considering the appropriateness of non-audit work carried out by the external auditor
- reviewing the effectiveness of internal controls
- agreeing the programme of internal audit work, reviewing the results, agreeing actions needed and ensuring the actions were completed
- reviewing the effectiveness of the internal auditor
- reviewing the development of the internal compliance assurance function
- reviewing the risk management processes, including the risk management policy and risk register.

The Committee also monitored the directors' register of interests and reviewed the MDDUS 'whistleblowing' policy. A verbal update on matters of note is given to the Board immediately following each Committee meeting and the minutes are also formally received by the Board.

External audit

The lead partner from BDO LLP attended the Committee for all three meetings in 2017, and also met the non-executive committee members privately, in the absence of the executive.

The key accounting and audit risks remain similar to previous years and the Committee was able to satisfy itself that they had been carefully and adequately addressed. The independence of BDO LLP was fully discussed.

As noted above, the Group financial statements for the year ending 31 December 2017 were recommended by the Committee to the Board meeting on 22 June 2018. The Committee also recommends to the AGM, via the Board, the re-appointment of BDO LLP as external auditor for the coming year.

Non-audit work carried out by BDO LLP was fully reported, discussed and agreed to be appropriately independent and proportionate.

On the basis of our customised annual evaluation process, the Committee remains satisfied that BDO LLP has continued to provide the necessary degree of objectivity and scrutiny on behalf of the membership.

BDO LLP was appointed as external auditor to MDDUS in 2007 and the current lead partner was engaged in 2015. The Committee considered proposals to re-tender the external audit at its meeting on 25 May 2018 and, in the light of the uncertain external operating environment, has agreed to defer this matter to the autumn of 2019.

Internal audit

Deloitte LLP continued to provide an internal audit service during 2017 with a Committee-agreed programme of specific risk-based audits spanning the work of the organisation.

The Committee received regular internal audit reports, from Deloitte LLP, reviewed outcomes, discussed potential actions required with the executive directors and monitored the implementation of agreed actions.

The Committee's customised annual evaluation process confirmed that Deloitte LLP has provided the level of service we require and value for money for our members.

Compliance

The Committee also agreed a programme of compliance assurance reviews of activities and processes during 2017. These were managed 'in-house', but Deloitte LLP provided the external support and expertise to perform the reviews. As with the internal audit reports, the Committee reviewed outcomes, discussed actions required with the executive directors and monitored the implementation of agreed actions. The compliance assurance function was brought fully 'in-house' during 2018.

Risk register

Effective and pre-emptive risk management, over both the short and the long term, is essential to the continued success of MDDUS.

The framework and processes used to manage, assess and address risk for MDDUS are constantly updated and remain a top priority. The formal risk register was fully discussed by the Committee before being recommended to the Board for review biannually, with key risks selected for more frequent scrutiny at available Committee meetings.

Ms Margaret McPhail
Chairman, Audit and Risk Committee
11 July 2018

Independent auditor's report

Independent auditor's report to the members of The Medical and Dental Defence Union of Scotland (MDDUS)

Opinion

We have audited the financial statements of The Medical and Dental Defence Union of Scotland ("the Parent Company") and its subsidiaries ("the Group") for the year ended 31 December 2017 which comprise the consolidated statement of income and retained earnings, the consolidated and company balance sheets, the consolidated statement of cash flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2017 and of the Group's surplus for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Group and the Parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to principal risks, going concern and viability statement

We have nothing to report in respect of the following information in the Annual Report, in relation to which the ISAs (UK) require us to report to you whether we have anything material to add or draw attention to:

- the disclosures in the Annual Report set out on pages 15-16 that describe the principal risks and explain how they are being managed or mitigated;
- the directors' confirmation set out on pages 15-16 in the Annual Report that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity;
- the directors' statement set out on page 17 in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the directors' identification of any material uncertainties to the Group and the Parent Company's ability to continue to do so over a period of at least 12 months from the date of approval of the financial statements;
- whether the directors' statement relating to going concern is materially inconsistent with our knowledge obtained in the audit; or
- the directors' explanation set out on page 17 in the Annual Report as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How we addressed the matter in our audit
Revenue recognition – deferred revenue As detailed in note 12 the Group has deferred income of £57.4m which relates solely to members' subscriptions in the Parent Company as set out in note 1c. Calculations are performed by management at the year end in order to ensure that revenue is being recognised in the correct period. This work involves reviewing membership data for 2017 and calculating the proportion of membership income that relates to 2018 using a bespoke report generated by the Membership Relationship Management (MRM) system. There is a risk that the deferred revenue will be inaccurately calculated such that revenue will be misstated.	We performed computer-assisted audit techniques in relation to the deferred income report and underlying data. We reperformed the year-end deferred income calculation, ensuring that the parameters of the report used in the calculation met our expectations. We substantively tested, on a sample basis, the information produced by the Parent Company which is key to the calculation of deferred income to ensure that the critical dates where accurate, that the members listed exist and that the list of members was complete.
Estimation of settlement and handling costs for claims and non-claims The provision for future settlement is a material sum and is subject to significant estimation. There are assumptions made regarding the probable outcome of each individual case and other assumptions such as the discount rate applied. At 31 December 2017 the provision for claims is £170.5m and for non-claims is £26m (note 1f, 2, 13). MDDUS employs an actuary to estimate the value of the provision at the year-end date. This calculation is then subject to review by a third-party actuary.	We obtained and reviewed the report produced by the third-party actuary to ensure that he considered the assumptions employed and the calculations prepared to be appropriate and accurate. We also considered the assumptions used by the actuary in his work and whether these were in line with our understanding of the business. We considered and sample tested the data driving the calculation of the provision to ensure that it was accurate and complete. This involved sample testing of claims within the MRM system to inclusion within the provision and vice versa.

Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. For planning, we consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

Group materiality	2017	2016	Basis for materiality
Overall	14,250,000	14,462,000	Applied to the audit of investments, provisions and reserves. Based on 1.75% of total assets (2016: 2%)
Specific	8,800,000	3,888,000	Applied to all other financial statement areas. Based on 8% of surplus before tax (2016: 9%)

Materiality was determined by reference to a benchmark of total assets which we consider to be the principal consideration in assessing the financial performance of the Group which is an asset based business. Specific materiality was determined with reference to a benchmark of surplus before tax. This was considered appropriate on the basis that the surplus influences the setting of future fees. Specific materiality is applied to areas of the financial statements where we determine that a lower number than overall financial statement materiality could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Performance materiality is the application of materiality at the individual account or balance level set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole. Performance materiality was set at 70% (2016: 75%) of the above materiality levels, at the higher end of the threshold due to the low risk of aggregation of misstatements within the Group.

Whilst materiality for the financial statements as a whole was set, each component of the Group was audited to a lower level of materiality, being 1.75 – 2% of total assets or 5% of net assets of the component. Where appropriate a specific materiality was applied to certain financial statement areas based on 8% of surplus/profit before tax. The same approach to performance materiality has been applied as discussed above.

We agreed with the Audit and Risk Committee that we would report all individual audit differences identified during the course of our audit in excess of £0.57m (2016: £0.43m). We also agreed to report differences below these thresholds that, in our view, warranted reporting on qualitative grounds.

An overview of the scope of our audit

Our group audit scope focussed on the Group's principal components being MDDUS, MDDUS Property Limited and MDDUS Insurance Limited, each of which was subject to a full scope audit. The only insignificant component, MDDUS Education Limited, was also subject to a full scope audit.

Audits of the components were performed at a materiality level calculated by reference to a proportion of Group materiality appropriate to the relative scale of the business concerned. With the exception of MDDUS Insurance Limited, which was audited by BDO Limited in Guernsey, the audits of each of these components were performed in Glasgow by BDO LLP.

Other information

The directors are responsible for the other information. The other information comprises the information included in the Annual Report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

In this context, we also have nothing to report in regard to our responsibility to specifically address the following items in the other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions:

- Fair, balanced and understandable (set out on p. 13) – the statement given by the directors that they consider the Annual Report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for members to assess the Group's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or

- Audit and Risk Committee reporting (set out on pp 17-18) – the section describing the work of the Audit and Risk Committee does not appropriately address matters communicated by us to the Audit and Risk Committee; or

- Directors' statement of compliance with the UK Corporate Governance Code – An annotated version for Mutual Insurers (set out on p. 13) – the parts of the directors' statement relating to the Company's compliance with the UK Corporate Governance Code do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and

- the Strategic report and the Directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Group and the Parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic report and Directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or

- the Parent Company financial statements are not in agreement with the accounting records and returns; or

- certain disclosures of directors' remuneration specified by law are not made; or

- we have not received all the information and explanations we require for our audit.

Responsibilities of directors

As explained more fully in the Statement of directors' responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group's and the Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located at the Financial Reporting Council's website at: https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Other matters which we are required to address

Following the recommendation of the Audit and Risk Committee, we were appointed to audit the financial statements for the year ended 31 December 2007 and subsequent financial periods. The period of total uninterrupted engagement is 11 years, covering the years ending 2007 to 2018.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Parent Company and we remain independent of the Group and the Parent Company in conducting our audit.

Our audit opinion is consistent with the additional report to the Audit and Risk Committee.

Use of our report

This report is made solely to the Parent Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Parent Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Parent Company and the Parent Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Martin Gill (Senior Statutory Auditor)

For and on behalf of BDO LLP, statutory auditor
Glasgow
11 July 2018

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

FINANCIAL STATEMENTS FOR 2017

Consolidated statement of income and retained earnings

For the year ended 31 December 2017

	Notes	2017	2016
		£'000	£'000
Income			
Members' subscriptions and other income	1[c]	**115,817**	97,435
Expenditure			
Claims costs and associated legal costs		**16,057**	73,579
Advisory and non-claims legal costs		**5,100**	12,144
Administration costs		**12,211**	11,211
		33,368	96,934
Surplus of income over expenditure	3	**82,449**	501
Realised gains on disposal of fixed assets		**958**	5,893
Changes in fair value of investments		**18,064**	28,170
Investment income	1[g]&6	**7,770**	8,644
Surplus on ordinary activities before taxation		**109,241**	43,208
Taxation	1[i]&7	**3,696**	2,076
Net and total comprehensive income available for transfer to reserves		**105,545**	41,132
Accumulated fund brought forward		**441,818**	400,686
Accumulated fund carried forward		**547,363**	441,818

All amounts relate to continuing operations.

The notes on pages 27 to 39 form part of these financial statements.

Consolidated and company balance sheets

As at 31 December 2017

Company Number SC005093

	Notes	Group 2017	Group 2016	Company 2017	Company 2016
		£'000	£'000	£'000	£'000
Fixed assets					
Tangible assets	8	91,094	102,240	1,845	3,486
Investments	10	649,981	542,498	722,175	609,909
		741,075	**644,738**	**724,020**	**613,395**
Current assets					
Debtors and payments in advance	11	46,488	40,234	43,355	36,827
Cash at bank, in hand and on deposit		29,203	38,170	19,320	36,689
		75,691	**78,404**	**62,675**	**73,516**
Creditors: amounts falling due within one year					
Sundry creditors and accrued charges	12	61,195	51,442	59,087	49,123
Corporation tax provision		443	4,382	228	4,161
		61,638	**55,824**	**59,315**	**53,284**
Net current assets		14,053	22,580	3,360	20,232
Total assets less current liabilities		755,128	667,318	727,380	633,627
Provision for liabilities and charges	13	207,765	225,500	208,153	224,032
Total net assets		**547,363**	**441,818**	**519,227**	**409,595**
Reserves					
Accumulated fund	15	547,363	441,818	519,227	409,595
		547,363	**441,818**	**519,227**	**409,595**

The Company has taken advantage of the exemption allowed under section 408 of the Companies Act 2006 and has not presented its own statement of income and retained earnings in these financial statements. The surplus for the year of the Parent Company, MDDUS, is £109.632m (2016: £43.271m).

These financial statements were approved by the members of the Board on 22 June 2018.

Brendan Sweeney
Chairman

Chris Kenny
Chief Executive

The notes on pages 27 to 39 form part of these financial statements.

Consolidated statement of cash flows

For the year ended 31 December 2017

	2017	2016
	£'000	£'000
Cash flow from operating activities		
Surplus for the financial year	**105,545**	**41,132**
Adjustments for:		
Depreciation of fixed assets	403	455
Gains on sale of fixed assets	(958)	(5,893)
Net fair value gains recognised in statement of income and retained earnings	(18,064)	(28,170)
Net interest receivable	(1,582)	(1,620)
Dividend income from fixed and current asset investments	(6,188)	(7,024)
Taxation expenses	3,696	2,076
Increase in trade and other debtors	(6,254)	(8,201)
Increase in creditors	9,753	9,077
(Decrease)/Increase in provisions	(17,600)	40,700
Taxation paid	(7,700)	(2,843)
Cash from operations	**60,981**	**39,689**
Cash flows from investing activities		
Proceeds from sale of tangible fixed assets	81	49
Purchases of tangible fixed assets	(306)	(31,080)
Purchases of investments	(179,911)	(215,754)
Proceeds from sale of investments	102,418	207,374
Interest received	1,582	1,620
Dividends received on fixed and current asset investments	6,188	7,024
Movement on long term deposits	36,500	(19,000)
Movement on cash equivalents	37,749	17,366
Net cash from investing activities	**4,301**	**(32,401)**
Cash flows from financing activities	-	-
Net increase in cash and cash equivalents	65,282	7,288
Cash and cash equivalents at the beginning of year	27,471	20,183
Cash and cash equivalents at end of year	**92,753**	**27,471**
Cash and cash equivalents at end of year comprise:		
Cash at bank, in hand and on deposit	29,203	38,170
Long-term deposits	-	(36,500)
Cash equivalents	63,550	25,801
	92,753	**27,471**

The notes on pages 27 to 39 form part of these financial statements.

Notes to the accounts

For the year ended 31 December 2017

1. Accounting policies

a) Accounting convention

MDDUS is a company incorporated in Scotland under the Companies Act and limited by guarantee. The address of the registered office is Mackintosh House, 120 Blythswood Street, Glasgow, G2 4EA and the nature of the Company's operations and its principal activity are set out in the Strategic report. The Company registration number is SC005093.

The financial statements have been prepared in accordance with FRS 102, the Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland. The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires Group management to exercise judgement in applying the Group's accounting policies.

b) Basis of consolidation

The consolidated statement of income and retained earnings and balance sheet include the financial statements of the Company and its subsidiary undertakings made up to 31 December 2017. No statement of income and retained earnings is presented for The Medical and Dental Defence Union of Scotland as permitted by section 408 of the Companies Act 2006. The Group surplus for the year included a surplus after tax of £109.632m (2016: £43.271m), which is dealt with in the financial statements of the Parent Company.

c) Members' subscriptions and other income

Subscription income comprises amounts receivable during the year, apportioned to accounting periods on a time basis. All subscription income is generated within the UK.

Other income is derived from MDDUS Education Limited and MDDUS Property Limited. MDDUS Education Limited's income represents the invoiced sales for the year net of value added tax and trade discounts. Income is recognised in the period in which the goods or services are supplied.

MDDUS Property Limited's turnover consists of rental income and service charge income net of value added tax. Income is recognised on an accruals basis in the period to which the rental relates. All income arises in the UK.

d) Fixed assets

The fixed assets are stated at cost or revalued amount which is considered to be its fair value. Depreciation is provided on a basis which will write off the assets to an estimate of their residual value over their expected lives.

Depreciation on fixed assets has been provided as follows:

i) Computer equipment has been depreciated on the straight line basis at the rate of 25% per annum.

ii) Furniture, fittings, office equipment and motor vehicles have been depreciated on the reducing balance basis at the rate of 25% per annum.

iii) Freehold property has been depreciated on the straight line basis over a period of 50 years.

iv) The freehold element of mixed use property has been depreciated on the straight line basis over a period of 50 years.

Investment properties are revalued annually to open market value which the directors consider to be their fair value in accordance with FRS 102. Freehold property is revalued every five years and depreciated anually. No depreciation is provided. The directors consider that this accounting policy results in the financial statements giving a true and fair view.

The aggregate surplus or deficit arising on revaluation is recognised in the statement of income and retained earnings.

e) Operating leases

Rentals in respect of leasing agreements are charged to the statement of income and retained earnings on a straight line basis over the term of the lease.

f) Provision for liabilities and charges

Full provision has been made in the financial statements for the estimated settlement and handling costs for all claims and non-claims notified to MDDUS as at 31 December 2017. The provision is the discounted value of the expected future settlement and handling costs. The provision relates to all incidents notified at 31 December 2017.

g) Dividends and interest

Dividends are shown net of the tax credit, where applicable. Interest on investments and short-term deposits have been shown gross. Accrued interest on short-term deposits and unfranked investment income dividends have been provided in the year. In addition, only franked investment income dividends received in the year to 31 December 2017 have been included.

h) Investments

Listed investments held at 31 December 2017 are stated at the bid price on that date which the directors consider to be their fair value under FRS 102. Unlisted investments have been valued at the lower of cost or net asset value which the directors

Notes to the accounts

For the year ended 31 December 2017 (continued)

1. Accounting policies (continued)

consider to be their fair value under FRS 102. Movements on revaluation are accounted for through the statement of income and retained earnings. In the Company financial statements investments in subsidiary undertakings are carried at the lower of cost or net asset value.

i) Taxation

Corporation tax has been provided on all investment income and capital gains and adjusted for tax deducted at source from unfranked investment income using the rate of 19.25% (2016: 20%). Tax credits on dividend income have not been included in the tax charge.

Deferred tax is recognised in respect of all timing differences at the reporting date, except as otherwise indicated.

Deferred tax is calculated using the tax rates and laws that have been enacted or substantively enacted by the reporting date that are expected to apply to the reversal of the timing differences. Deferred tax balances are not discounted.

Deferred tax liabilities are presented within provisions for liabilities.

j) Pension costs

Defined contribution pension arrangements are made for certain employees to which contributions are made by the Company. Amounts due to pension providers in respect of these arrangements are charged to the statement of income and retained earnings in the year to which they relate. In addition, subject to certain conditions, a number of employees have had the return on the pension contributions guaranteed. The liability accruing under this arrangement is calculated annually and any shortfall or surplus arising (over and above the level of actual contributions made) is recognised as a charge or credit in the statement of income and retained earnings. The assets of pension schemes are held separately from those of the Company in independently administered funds.

k) Going concern

The directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. The Group therefore continues to adopt the going concern basis in preparing its consolidated financial statements.

l) Functional and presentational currency

The Group's functional and presentational currency is GBP and is rounded to the nearest thousand pounds.

m) Financial instruments

Basic financial instruments including debtors, creditors, cash and cash equivalents and investments are initially recognised at transaction price. Such assets are subsequently measured at amortised cost. The listed investments are carried at fair value through surplus or deficit.

2. Judgements in applying policies and key sources of estimation uncertainty

In preparing these financial statements, the directors have made the following judgements:

Determining whether leases entered into by the Group either as a lessor or a lessee are operating or finance leases: these decisions depend on an assessment of whether the risks and rewards of ownership have been transferred from the lessor to the lessee on a lease-by-lease basis.

Other key sources of estimation uncertainty:

Tangible fixed assets (see Note 8)

Tangible fixed assets, other than investment properties, are depreciated over their useful lives taking into account residual values, where appropriate. The actual lives of the assets and residual values are assessed annually.

Investment properties are professionally valued annually at market value and freehold property is valued every five years. Market value is defined as being the "estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion". There is an inevitable degree of judgement involved in that each property is unique and value can only ultimately be reliably tested in the market itself.

Provision for liabilities and charges (see Note 13)

The provision for liabilities and charges represents the directors' best estimate of the timing and value of future claims settlements. The ultimate anticipated claims have been calculated by our in-house actuaries and peer reviewed by an independent firm of actuaries. Calculations include expected settlement frequency and amounts using their extensive experience and knowledge of malpractice claims. Actual claims may differ from the pattern on which the estimate is made and the cost of settling claims may exceed that assumed.

3. Surplus of income over expenditure

	2017	2016
This is stated after charging:	£'000	£'000
Emoluments of directors (excluding benefits in kind)	1,194	1,130
Auditor's remuneration	81	42
Pension costs	1,416	1,400
Depreciation on owned assets	412	455
Auditor's remuneration consists of:		
Group auditor - audit	50	38
Group auditor - taxation advisory	-	-
Group auditor - other advice	31	4
	81	**42**
Company only auditor's remuneration	**36**	**28**

4. Emoluments of directors

	2017	2016
	£'000	£'000
The detail of directors' emoluments (including executive directors) was as follows:		
Emoluments (including benefits in kind)	1,496	1,301
Pension costs	-	80
	1,496	**1,381**
The detail of the highest paid director's emoluments was as follows:		
Emoluments (including benefits in kind)	464	437
Pension entitlement taken as salary	90	82
	554	**519**
	Number	Number
Number of directors to whom retirement benefits are accruing under money purchase pension schemes	**1**	**1**

Notes to the accounts

For the year ended 31 December 2017 (continued)

5. Employees' remuneration

	2017	2016
	£'000	£'000
Salaries (including executive directors)	9,031	8,279
Social security costs	1,150	1,041
Pension costs	1,416	1,400
	11,597	**10,720**
Average number of employees in the year	**Number**	**Number**
Administrative	145	133
	145	**133**

6. Investment income

	2017	2016
	£'000	£'000
Dividends		
Franked	5,388	6,034
Unfranked	800	990
Bank interest	1,582	1,620
	7,770	**8,644**

7. Taxation

	2017	2016
	£'000	£'000
Corporation tax		
Corporation tax expense for the year	3,688	5,952
Foreign tax	143	(3,866)
Total current tax charge	**3,831**	**2,086**
Deferred tax		
Timing differences, origination and reversal	(70)	126
Change in tax rate	-	(136)
Adjustment in respect of previous periods	(65)	-
Total deferred tax credit	**(135)**	**(10)**
Total tax charge through statement of income and retained earnings	**3,696**	**2,076**

Factors affecting the tax charge

The tax assessed for the year is lower than the standard rate of corporation tax in the UK. The difference is explained below.

	2017	2016
	£'000	£'000
Surplus on ordinary activities before tax	**109,241**	**43,208**
Surplus on ordinary activities before tax multiplied by the standard rate of corporation tax in the UK of 19.25% (2016: 20%)	21,025	8,642
Effects of:		
Surplus of income over expenditure not taxed	(15,869)	(100)
Non-taxable franked investment income of Group	(1,037)	(1,207)
Unfranked and interest income of Guernsey subsidiary not taxed	(53)	(80)
Chargeable gains not recognised in current year	(184)	(511)
Deferred tax movement in year	(135)	(10)
Foreign tax	143	(3,866)
Gain on disposal of investments and assets	(951)	(1,179)
Other	757	387
Current tax charge through income and expenditure account	**3,696**	**2,076**

Notes to the accounts

For the year ended 31 December 2017 (continued)

8. Tangible fixed assets

Group

	Freehold property	Investment property	Furniture fittings & office equipment	Motor vehicles	Total
Cost/Valuation	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
At 1 January 2017	9,695	92,542	1,021	472	103,730
Additions	-	-	61	245	306
Disposals	-	-	(95)	(236)	(331)
Revaluation	(2,350)	(9,338)	-	-	(11,688)
At 31 December 2017	**7,345**	**83,204**	**987**	**481**	**92,017**
Depreciation					
At 1 January 2017	555	-	708	227	1,490
Provided during year	185	-	121	97	403
On disposals	-	-	(95)	(135)	(230)
Revaluation	(740)	-	-	-	(740)
At 31 December 2017	**-**	**-**	**734**	**189**	**923**
Net book value					
At 31 December 2017	**7,345**	**83,204**	**253**	**292**	**91,094**
At 31 December 2016	**9,140**	**92,542**	**313**	**245**	**102,240**

8. Tangible fixed assets (continued)

Company

	Freehold property	Investment property	Furniture fittings & office equipment	Motor vehicles	Total
Cost/Valuation	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
At 1 January 2017	3,183	-	1,021	472	4,676
Additions	-	-	61	245	306
Disposals	-	-	(95)	(236)	(331)
Revaluation	(1,883)	-	-	-	(1,883)
At 31 December 2017	**1,300**	**-**	**987**	**481**	**2,768**
Depreciation					
At 1 January 2017	255	-	708	227	1,190
Provided during year	64	-	121	97	282
On disposals	-	-	(95)	(135)	(230)
Revaluation	(319)	-	-	-	(319)
At 31 December 2017	**-**	**-**	**734**	**189**	**923**
Net book value					
At 31 December 2017	**1,300**	**-**	**253**	**292**	**1,845**
At 31 December 2016	**2,928**	**-**	**313**	**245**	**3,486**

Group and Company

	Freehold	Investment	Furniture	Motor	Total
Group	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Carrying value based on historical cost	7,083	86,200	346	292	93,921
Accumulated depreciation based on historical cost	2,524	-	1,208	189	3,921
Company					
Carrying value based on historical cost	3,672	-	346	292	4,310
Accumulated depreciation based on historical cost	2,182	-	1,208	189	3,579

Notes to the accounts

For the year ended 31 December 2017 (continued)

8. Tangible fixed assets (continued)

The investment properties were valued on 31 December 2017 by an external valuer, Daniel Watney LLP, which the directors believe to reflect their fair value at that date. The valuations were prepared in accordance with the requirements of the RICS Valuation – Professional Standards January 2014 (Revised April 2015) and UK Generally Accepted Accounting Principles (UKGAAP) and FRS 102. The properties have been valued on the basis of fair value on the assumption they would be sold subject to existing leases.

The valuer's opinion of fair value was primarily derived using comparable recent market transactions on arm's length terms together with other valuation techniques.

The freehold property of the Company was revalued by Ryden at the market value of the outright ownership interest, subject to vacant possession, at 31 December 2017 at a value of £1.3m. The directors believe this reflects its fair value at that date.

Capital commitments and subsequent events

Capital expenditure approved and contracted for amounted to £Nil (2016: £Nil).

9. Operating leases

MDDUS Property Limited holds investment properties which are let to third parties. These non-cancellable leases have remaining terms of between two months and 17 years. Future minimum rentals receivable under non-cancellable operating leases are as follows:

	2017	2016
	£'000	£'000
Not later than one year	4,266	4,262
After one year but not more than five years	16,761	16,928
After five years	12,042	16,142
	33,069	**37,332**

10. Investments

	Group 2017	Group 2016	Company 2017	Company 2016
Valuation	**£'000**	**£'000**	**£'000**	**£'000**
Market value at 1 January 2017	542,498	493,903	609,909	534,554
Additions	179,911	215,754	179,661	242,509
Disposals	(101,440)	(201,488)	(96,406)	(201,488)
Changes in fair value of investments	29,012	34,329	29,011	34,334
Market value at 31 December 2017	**649,981**	**542,498**	**722,175**	**609,909**
Listed investments	649,981	542,498	576,988	464,718
Unlisted investments	-	-	145,187	145,191
	649,981	542,498	722,175	609,909
Historical cost	**568,833**	**469,828**	**642,520**	**542,178**

Unlisted Investments at 31 December 2017 relate to the Company's holding of the entire issued share capital of 1,700,000 ordinary £1 shares of MDDUS Education Limited, a risk assessment and training company, incorporated in Great Britain, registered in Scotland whose registered office is Mackintosh House, 120 Blythswood Street, Glasgow, G2 4EA, the entire issued share capital of 30,000,000 ordinary £1 shares of MDDUS Insurance Limited, an insurance company incorporated and registered in Guernsey whose registered office is Maison Trinity, Trinity Square, St Peter Port, Guernsey GY1 4AT and the entire issued share capital of 115,000,000 ordinary £1 shares of MDDUS Property Limited, a property company incorporated in Great Britain, registered in Scotland whose registered office is Mackintosh House, 120 Blythswood Street, Glasgow G2 4EA.

Subsidiary share capital and reserves:

	MDDUS Insurance Limited	MDDUS Property Limited	MDDUS Education Limited
	£'000	**£'000**	**£'000**
Called up share capital	30,000	115,000	1,700
Profit and Loss account	19,201	8,301	(1,513)
Aggregate of share capital and reserves	**49,201**	**123,301**	**187**
Profit/(Loss) for the year	**73**	**(4,262)**	**(4)**

Notes to the accounts

For the year ended 31 December 2017 (continued)

11. Debtors and payments in advance

	Group 2017	Group 2016	Company 2017	Company 2016
	£'000	£'000	£'000	£'000
Trade debtors	44,833	38,563	42,281	35,792
Other debtors	1,383	1,466	803	824
Payments in advance	270	204	270	204
Other taxes and social security costs	2	1	-	-
Amounts owed by subsidiary undertakings	-	-	1	7
	46,488	**40,234**	**43,355**	**36,827**

12. Sundry creditors and accrued charges due within one year

	Group 2017	Group 2016	Company 2017	Company 2016
	£'000	£'000	£'000	£'000
Deferred income	58,528	48,481	57,443	47,451
Other taxes and social security costs	736	700	360	336
Sundry creditors and accruals	1,931	2,261	1,111	1,336
Subsidiary undertakings	-	-	173	-
	61,195	**51,442**	**59,087**	**49,123**

13. Provision for liabilities and charges

	Deferred taxation	Claims	Non-claims	Total
Group	£'000	£'000	£'000	£'000
At 1 January 2017	11,400	186,300	27,800	225,500
Charged/(credited) to statement of income and retained earnings in year	(135)	16,057	5,100	21,022
Paid in year	-	(31,857)	(6,900)	(38,757)
At 31 December 2017	**11,265**	**170,500**	**26,000**	**207,765**
Company				
At 1 January 2017	9,932	186,300	27,800	224,032
Charged/(credited) to statement of income and retained earnings in year	1,721	16,057	5,100	22,878
Paid in year	-	(31,857)	(6,900)	(38,757)
At 31 December 2017	**11,653**	**170,500**	**26,000**	**208,153**

The provision represents the discounted value of expected settlement and handling costs for all claims and non-claims notified to MDDUS as at 31 December 2017.

13. Provision for liabilities and charges (continued)

In addition to events reported at the end of the accounting year and included in the balance sheet, MDDUS must also be aware of the potential costs of those events that occurred before the end of December 2017 but have not yet been reported – the incurred but not reported (IBNR) claims and non-claims. As MDDUS has not yet exercised its discretion over these matters by the year end (as they have by their nature not been reported), they are not considered to be a liability and are not therefore incorporated into the balance sheet. Our actuaries have however estimated the value of these IBNR claims and non-claims to be £357.3m (2016: £259.0m) and £12.8m (2016: £10.3m), respectively.

14. Deferred taxation

Deferred taxation provided for at 19% (2016: 19%) in the financial statements is set out below:

	Group 2017	Group 2016	Company 2017	Company 2016
	£'000	£'000	£'000	£'000
Timing differences on fixed asset investments	11,653	9,932	11,653	9,932
Timing differences on property	(388)	1,468	-	-
At 31 December 2017	**11,265**	**11,400**	**11,653**	**9,932**

15. Reserves

	Group 2017	Group 2016	Company 2017	Company 2016
	£'000	£'000	£'000	£'000
Accumulated fund				
At 1 January 2017	441,818	400,686	409,595	366,324
Transferred from statement of income and retained earnings	105,545	41,132	109,632	43,271
At 31 December 2017	**547,363**	**441,818**	**519,227**	**409,595**

16. Reconciliation of movement in funds

	2017	2016
	£'000	£'000
Net surplus for the financial year	105,545	41,132
Other recognised gains relating to the year	-	-
Total recognised gains	105,545	41,132
Opening funds available to meet future liabilities as previously stated	441,818	400,686
Closing funds available to meet future liabilities	**547,363**	**441,818**

Notes to the accounts

For the year ended 31 December 2017 (continued)

17. Investments fair value determination

The Group and Company classifies financial instruments measured at fair value within investments using the following fair value hierarchy:

Category (a) The quoted price for an identical asset in an active market at the reporting date.

Category (b) When quoted prices are unavailable, the price of a recent transaction for an identical asset adjusted if necessary.

Category (c) Where a quoted price is not available and recent transactions of an identical asset on their own are not a good estimate of fair value, the fair value is determined by using a valuation technique.

The investment assets have been fair valued using the above hierarchy categories as follows:

Group

	Category (a)	Category (b)	Category (c)	Total
	£'000	£'000	£'000	£'000
Listed investments	649,981	-	-	649,981
At 31 December 2017	**649,981**	-	-	**649,981**
Listed investments	542,498	-	-	542,498
At 31 December 2016	**542,498**	-	-	**542,498**

Company

	Category (a)	Category (b)	Category (c)	Total
	£'000	£'000	£'000	£'000
Listed investments	576,988	-	-	576,988
At 31 December 2017	**576,988**	-	-	**576,988**
Listed investments	464,718	-	-	464,718
At 31 December 2016	**464,718**	-	-	**464,718**

18. Financial instruments

The Group's and Company's financial instruments may be analysed as follows:

	Group 2017	Group 2016	Company 2017	Company 2016
Financial assets	£'000	£'000	£'000	£'000
Financial assets measured at fair value through surplus or deficit	649,981	542,498	576,988	464,718
Financial assets that are debt instruments measured at amortised cost	75,419	78,199	62,404	73,305
Financial liabilities				
Financial liabilities measured at amortised cost	1,931	2,261	1,111	1,336

18. Financial instruments (continued)

Financial assets measured at fair value through surplus or deficit comprise fixed asset listed investments.
Financial assets measured at amortised cost comprise cash, trade debtors and other debtors.
Financial liabilities measured at amortised cost comprise sundry creditors and accruals.
Information regarding the Group's exposure to and management of risk is included in the Strategic report.

19. Other financial commitments

Group and Company

The following payments under non-cancellable operating leases are committed to be paid in respect of land and buildings:

	2017	2016
	£'000	£'000
Future minimum lease payments:		
Not later than one year	345	345
Later than one year and not later than five years	1,381	1,381
Later than five years	1,193	1,538
Total commitment	**2,919**	**3,264**

The Group has no commitments under non-cancellable operating leases.

20. Pension Commitments

Group and Company

	2017	2016
	£'000	£'000
Charge to surplus for the year	1,416	1,400
Total commitment	**206**	**292**

21. Member's guarantee

The Medical and Dental Defence Union of Scotland is a company limited by guarantee of up to £1 per member.

22. Related party disclosures

The Company has taken advantage of the exemption conferred by s33.1A of FRS 102 not to disclose transactions with its wholly owned subsidiaries. The directors do not consider there to be any one single controlling party of the Company. Key management personnel are considered to be the directors.

MDDUS Board and honorary fellows

Chairman
Brendan Sweeney[2,3,4]
MBE MA MBChB DRCOG FRCGP

Vice-Chairman

Jonathan P Berry[2,3,4 (2018)]
MB ChB MBA MA
(Appointed Vice-Chairman 15 December 2017)

John Garner[2,3,4]
MBChB FRCGP FRCPEd DCH DRCOG
(Retired 8 September 2017)

Senior Independent Director
**Linsey C Semple[1]
MB ChB FRCGP DRCOG
(Appointed SID 27 April 2018)

Chief Executive and Secretary
*Chris Kenny
MA FRSA

Other members of the Board
Ian W R Anderson[2]
CBE FRCS (Glasg, Ed, Eng) FRCP
(Glasg, Ed, Lond) FRCEM FIFEM Hon FACP DSc
(Retired 8 September 2017)

**The Right Honourable
Dame Elish Angiolini[3,4]
DBE QC

**Joanna L Bayley[2]
MB ChB MA MRCEM MRCGP
(Appointed 28 April 2017)

**James Black[1,3 (2018),4]
FFA

**Iain T Cameron[1]
BSc MA MD FRCOG FRCP (Edin)
(Appointed 28 April 2017)

W Alastair Chambers[1]
MD MEd FRCA FFPMRCA
(Retired 8 September 2017)

Judith M Chapman[1]
MA MB BChir FRCGP DRCOG
(Retired 8 September 2017)

Hilary O D Critchley[1]
BSc (Hons) MBChB (Hons) MD FRCOG
FRANZCOG FSB FMedSci FRSE
(Retired 8 September 2017)

**Robert Donald[2]
BDS (Hons) DGDP (UK)

**Marian Glen
MA (Hons) LLB
(Appointed 22 June 2018)

**Jason Leitch[2,3]
BDS DDS FDS RCS (Eng) FDSRCS (Edin)
FDSRCPSG (Glas) FRCS (Edin) MPH (Harvard)

**Peter McDonald[1]
MBBS MS (Southampton) FRCS (Eng)

**Margaret A McPhail[1]
Dip Man MIoD

Gillian Needham[2]
BSc s (Hons) MBChB (Hons) FRCP (Edin)
FRCS (Edin) FHEA FAcadMedEd
(Retired 8 September 2017)

Donald W M Pearson[2]
BSc (Hons) MBChB FRCP (Edin & Glasg)
(Retired 8 September 2017)

*Colin J Slevin[2]
MA (Hons) MBA CA

**Nairn H F Wilson[1]
CBE DSc(h.c.) PhD FDS FFGDP DRD

Honorary fellows
Alistair D Beattie
MD FRCP (Glasg, Lond & Edin) FFPM

J Douglas Bell
MBChB FRCP (Edin) FFOM DIH

John K Davidson
OBE MD FRCP (Edin & Glasg)
FRCR FACR (Hon) FRANZCR (Hon)

Gordon C A Dickson
MLitt PhD FCII FIRM

Peter Edmond
CBE TD MBChB FRCS (Ed & Glasg)
FRCP (Edin)

Wallace S Foulds
CBE MD ChM FRCS (Eng & Glasg)
DO DSc (Hon) FRCOphth (Hon)
FRACO (Hon) FCMSA (Hon)

Douglas G Garvie
OBE FRCGP

James Graham
MBChB FRCS (Ed & Glasg)

John R Griffiths
BA (Oxon) LLB WS

Key

1 Members of the Audit and Risk Committee
2 Members of the Investment Committee
3 Members of the Governance and Nominations Committee
4 Members of the Remuneration Committee

**Independent non-executive directors
* Executive directors
Accurate at 1 June 2018

Management and professional staff

MDDUS senior management

Chief Executive and Secretary
*Chris Kenny
MA FRSA

Finance Director
*Colin J Slevin
MA (Hons) MBA CA

Director of Advisory and Legal Services
Emma Parfitt
LLB (Hons) French Diploma of Law

Director of Development
David Sturgeon

HR Director
Melanie Stead
FCIPD

Heads

Actuary
Dermot Grenham
FIA DPhil MSc

Advisory services (dental)
Aubrey Craig
BDS FDS RCPS (Glasg) MPhil MBA

Business systems and services
Maria Charlesworth
BSc MSc

Advisory services (medical)
John Holden
MB BS MPhil MRCGP FFFLM DCH DRCOG

Anthea Martin
BMSc MBChB LLB MPhil DRCOG PgCert

Corporate Governance Manager / Deputy Company Secretary
Bryan Hislop
LLB (Hons) ACIS

Corporate services
Johanne Roberts
BA (Hons)

Finance
Rekha Bhatt
BSc PgDipAcc FCCA PgCert

Financial Controller
William G McMillan
CA

Group Finance Manager
Margaret Swiderska
MA (Hons) BA (Hons) CA

ICT
Theo Theodorou
BSc (Hons) ONDA/ONMP PgD IT CCNA MCP PgCert

Information systems
Ian Frame
MCTS PgCert

Legal services (Scotland and corporate)
David Holmes
LLB (Hons) Dip LP

Marketing and external relations
Gaelle Ainslie
BA (Hons) PgCert

Membership services
Stephen G Kelly
PgCert

Product Development Actuary
Jack Boult
BSc AIA

Programme management and risk
Peter Johnson
BSc PgCert CQP FCQI FCMI SIRM

Public affairs and strategic communications
Stuart R Wilson
FCMI MCIPR MPRCA

Risk education
Liz Price
BA (Hons) MSc MBPsS

Transition Programme Manager
Dawn Reid
LLB (Hons)

Underwriting
Chris Godeseth
BMedSci (Hons) BM BS MRCS (Ed)

Medical and dental advisers

Rachael Bell
BDS MPhil MJDF RCSEng PgCert (Dental Anxiety)

Roopinder Brar
MBBS BSc MSc MA DRCOG MRCGP

Richard Brittain
BMedSci BM BS PGDipLaw MRCP MFFLM

Gregory Dollman
BA (Hons) Psych MBBCh DMH MRCP MA

Susan Gibson-Smith
MBChB DRCOG MRCGP MPhil

Gail Gilmartin
MBChB MPhil

Doug Hamilton
BDS LLM MJDF RSCEng PG Cert (Empl. Law)

Stephen Henderson
BDS LLM FFGDP

Annabelle MacGregor
MBBS MRCPCH MRCGP MA GDL

Myooran Nathan
MB ChB MRCP (UK) MRCGP DLM MA

Naeem Nazem
MBChB BSc (Hons) MRCP LLB (Hons)

Caroline Osborne-White
MA MB BChir (Cantab) MA (KCL) MRCGP

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MBChB MSc MML FRCGP DRCOG DCCH

Emily Shepherd
MBBS BMedSci (Hons) DRCOG MA

Desmond Watson
MA (Oxon) LLM BM BCh FRCS (Eng)

Susan Willatt
BDS MBA LLM

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BDS LLM DGDP MGDS RCS (Eng) FFGDP (UK)

Employment law advisers

Janice Sibbald
BA (Hons) LLM MCIPD

Liz Symon
MCIPD

Practice advisers

Scott Obrzud
RN (Dip) PMVTS

Helen Ormiston
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Jill Thomson
PMVTS

* Executive directors
Accurate at 1 June 2018

Management and professional staff

Lawyers

Rukmanie Athwal
LLB (Hons) PG Dip Law

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**Practice Development Manager

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UK INDEMNITY, ADVICE & SUPPORT